

USDA Agricultural Outlook Forum 2007

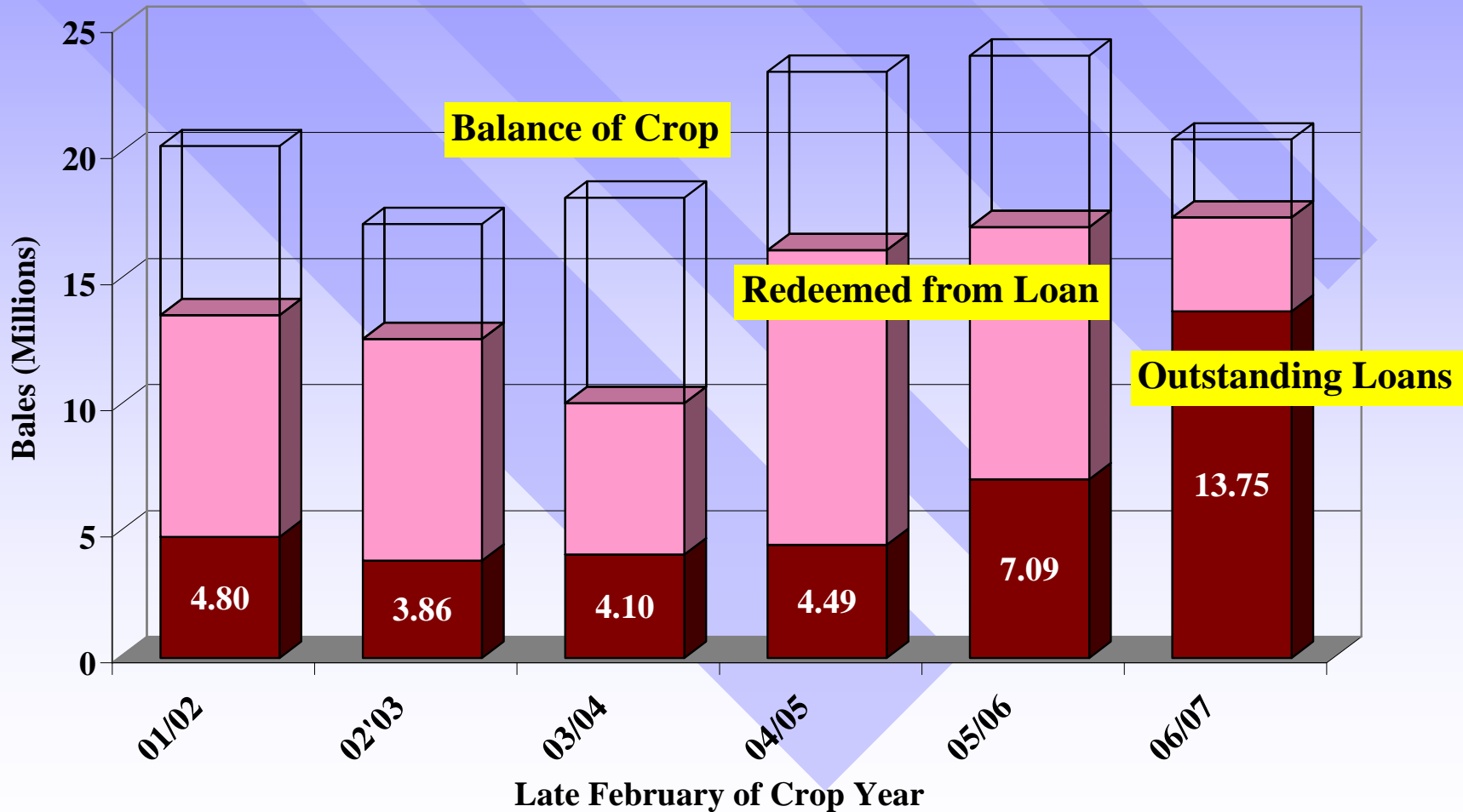
Moving U.S. Cotton from Loan to Market in the Post Step 2 Era

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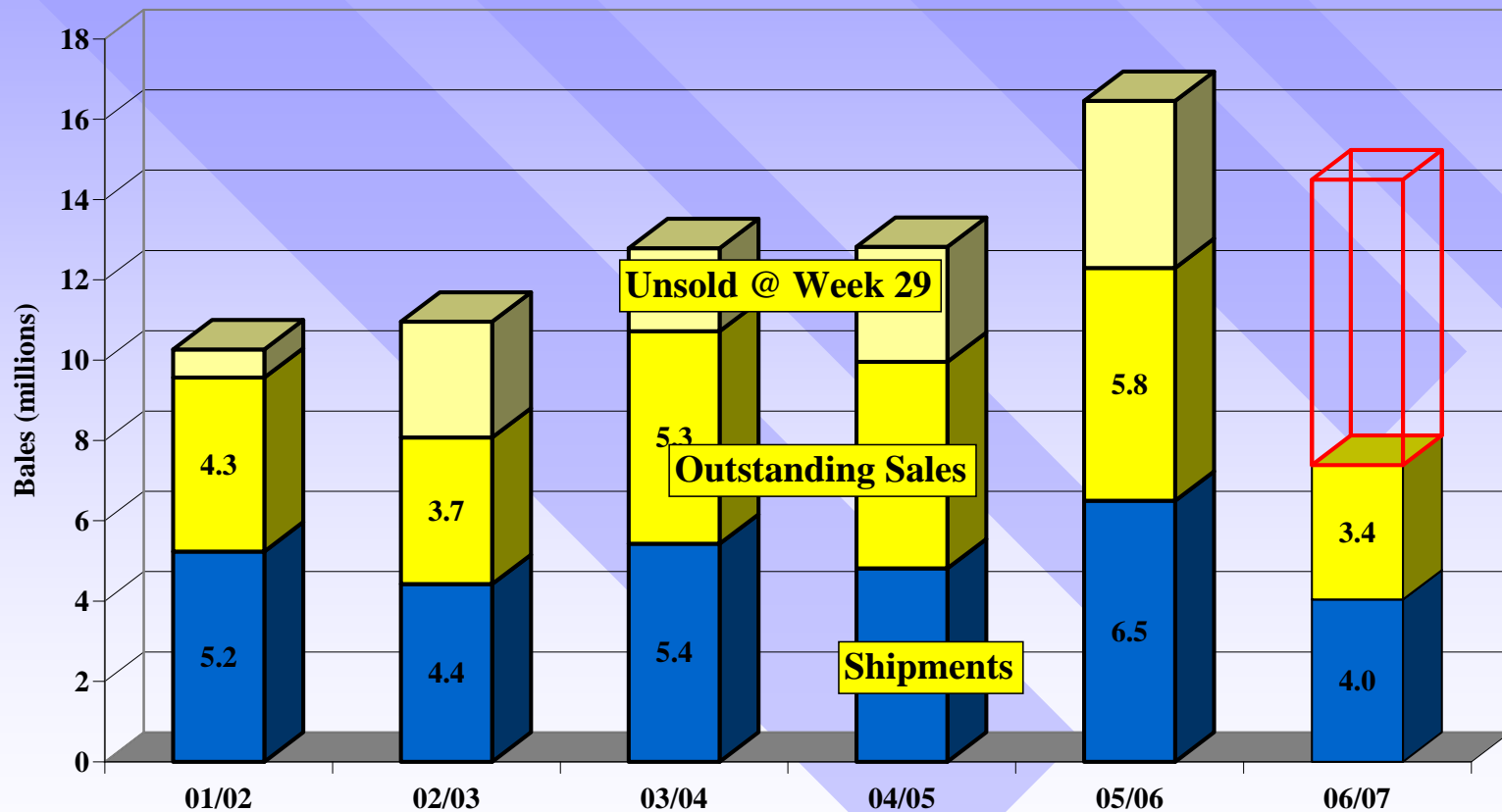
Friday - March 2, 2007

CCC Loan History

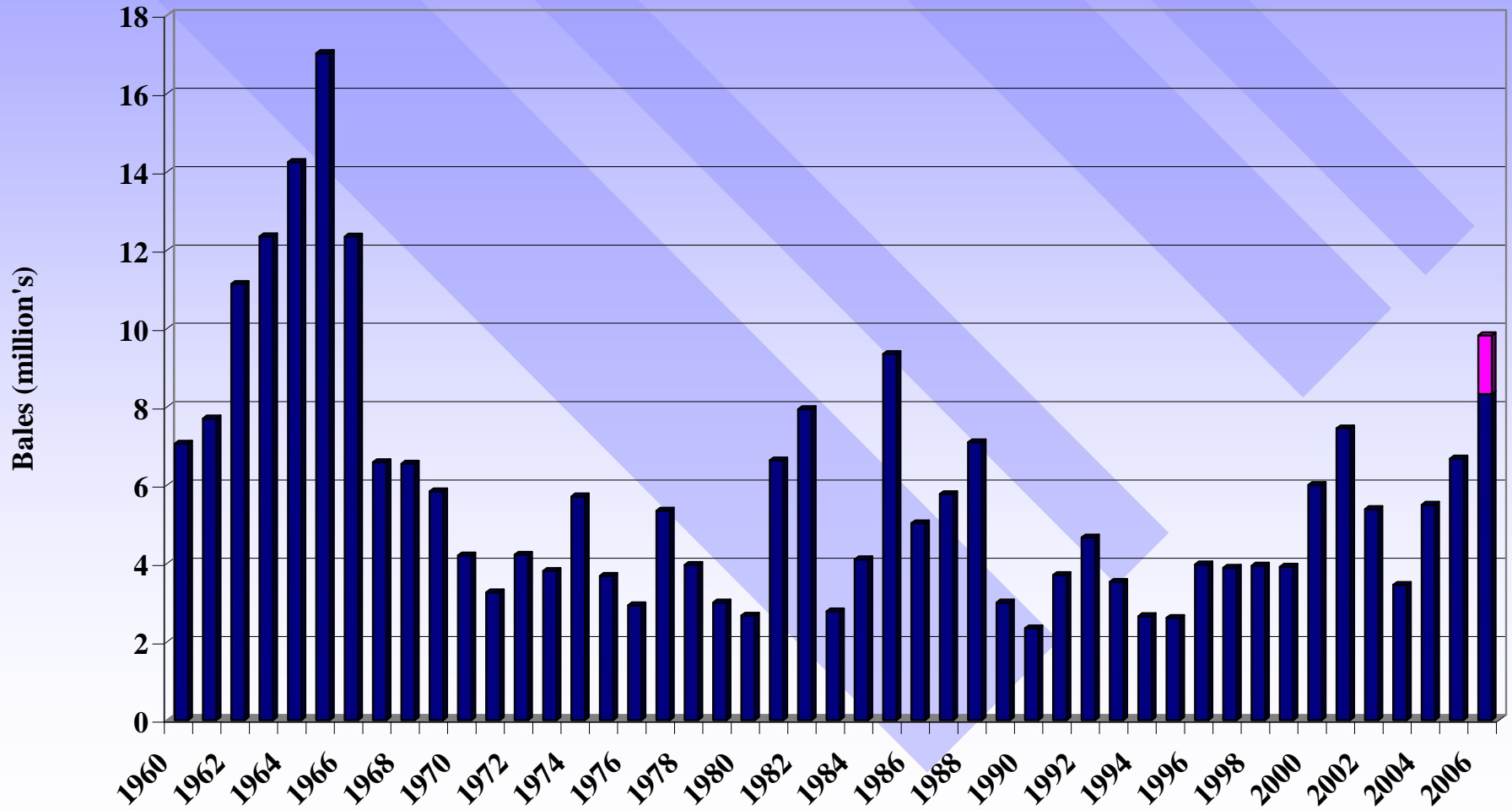


U.S. Upland Exports

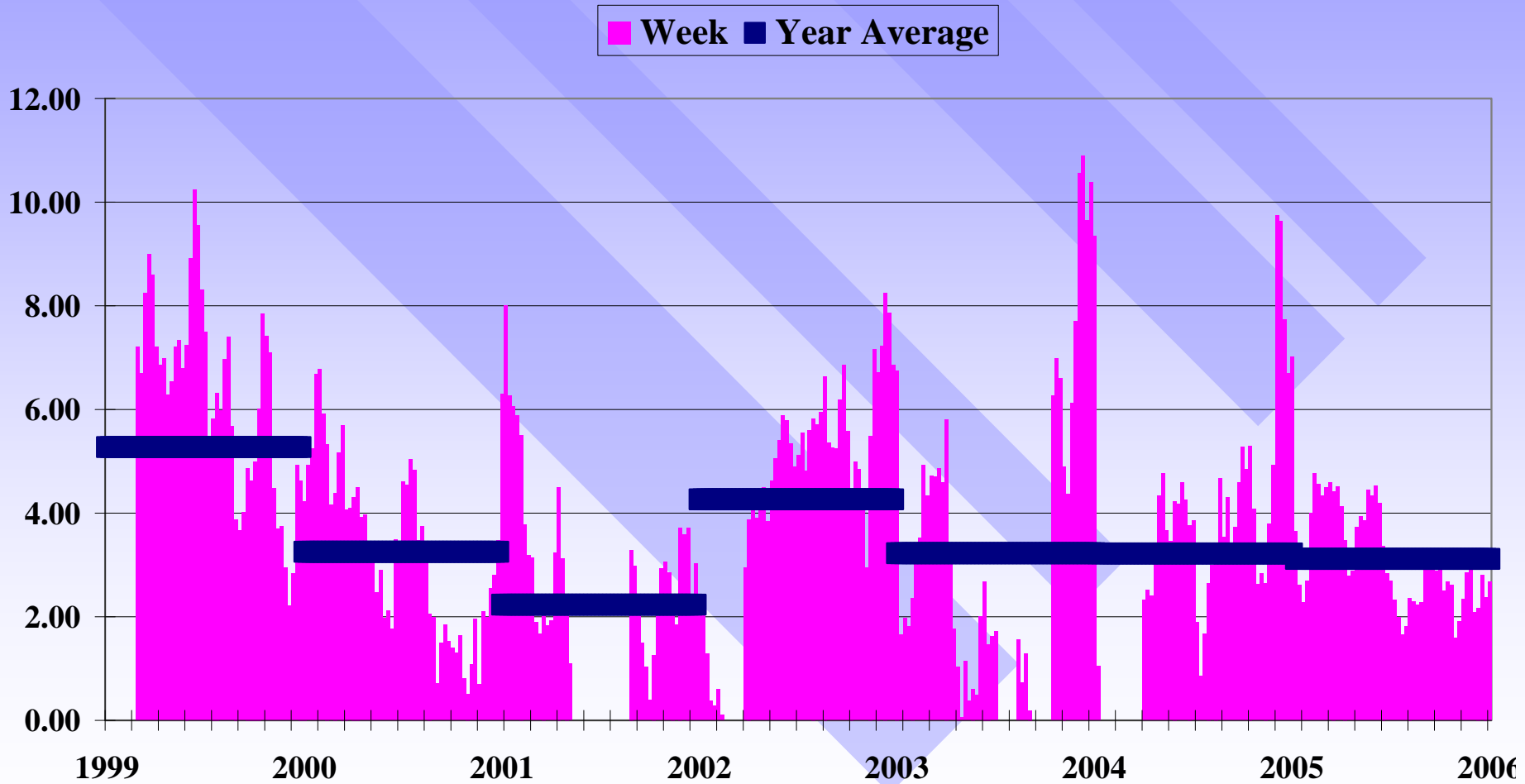
Through Feb 15 and Final



U.S. Ending Stocks



Loss of Step 2



Equity Price Calculation

MID-SOUTH GRADE 41 - 4 - 34

57.10 PRICE CIF CHINA

FOB truck to China -6.61
Loan Terms to FOB truck -4.97
Additional Storage

-11.58 TOTAL COSTS

Local Loan Base Price -52.35
Quality Premiums
LDP 8.40

-43.95 LOAN REDEMPTION RATE

1.57 EQUITY

Cost Variation by Regions

	AZ	TX	AR	AL	NC
Receiving		3.10	3.35	2.75	4.00
Loading	8.00	5.00	10.25	5.75	4.00
Compression	7.25	9.25	8.00	6.00	
One Month's Storage	3.60	1.95	3.25	2.00	1.70
LOAN TERMS TO FOB TRUCK	\$18.85	\$19.30	\$24.85	\$16.50	\$9.70
Cents per pound	3.77	3.86	4.97	3.30	1.94

3.00

Equity Variation by Regions

GRADE 41 - 4 - 34

	AZ	TX	AR	AL	NC
PRICE CIF CHINA	57.10	57.10	57.10	57.10	57.10
		0.04			
FOB truck to China	-6.65	-7.46	-6.61	-6.36	-5.85
Loan Terms to FOB truck	-3.77	-3.86	-4.97	-3.30	-1.94
Additional Storage			-0.47		
TOTAL COSTS	-10.42	-11.32	-12.05	-9.66	-7.79
		-1.90			
Base Loan Amount	-50.45	-51.60	-52.35	-52.55	-53.30
Quality Premiums					
LDP	8.40	8.40	8.40	8.40	8.40
LOAN REDEMPTION RATE	-42.05	-43.20	-43.95	-44.15	-44.90
EQUITY	4.63	2.58	1.10	3.29	4.41

Equity Variation by Quality

MID-SOUTH

	41-4-34	31-3-34	31-3-35	21-3-36	21-3-36 low mic
PRICE CIF CHINA	57.10	58.60	60.60	62.10	45.90
		3.50			
FOB truck to China	-6.61	-6.61	-6.61	-6.61	-6.61
Loan Terms to FOB truck	-4.97	-4.97	-4.97	-4.97	-4.97
Additional Storage					
TOTAL COSTS	-11.58	-11.58	-11.58	-11.58	-11.58
Base Loan Amount	-52.35	-52.35	-52.35	-52.35	-52.35
Quality Premiums		2.35	4.65	6.15	-0.40
LDP	8.40	8.40	8.40	8.40	8.40
LOAN REDEMPTION RATE	-43.95	-46.30	-48.60	-50.10	-43.55
EQUITY	1.57	0.72	0.42	0.42	-9.23

Equity vs. NYF-AWP Spread

MID-SOUTH GRADE 41 - 4 - 34

53.10 NYBOT FUTURES MARKET

Base Loan Amount -52.00

LDP 8.40

-43.60 ADJUSTED WORLD PRICE (AWP)

9.50 NYF-AWP SPREAD

Local Basis - FOB Truck -2.50

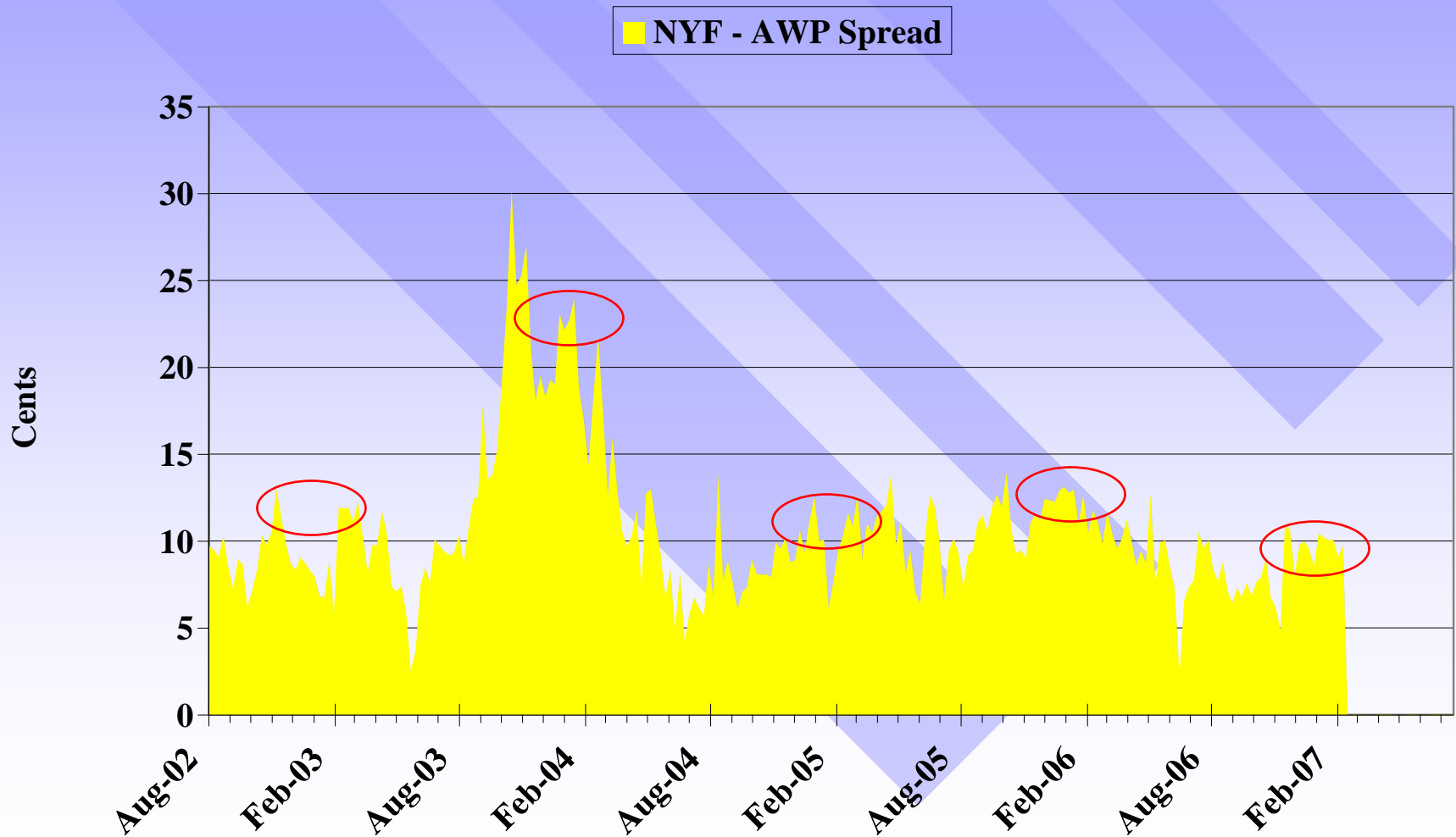
Loan Terms to FOB truck -5.00

Location Difference -0.35

-7.85 CONVERSION

1.65 ESTIMATED EQUITY

NY Futures – AWP Spread



Step 2 “Human” Factor

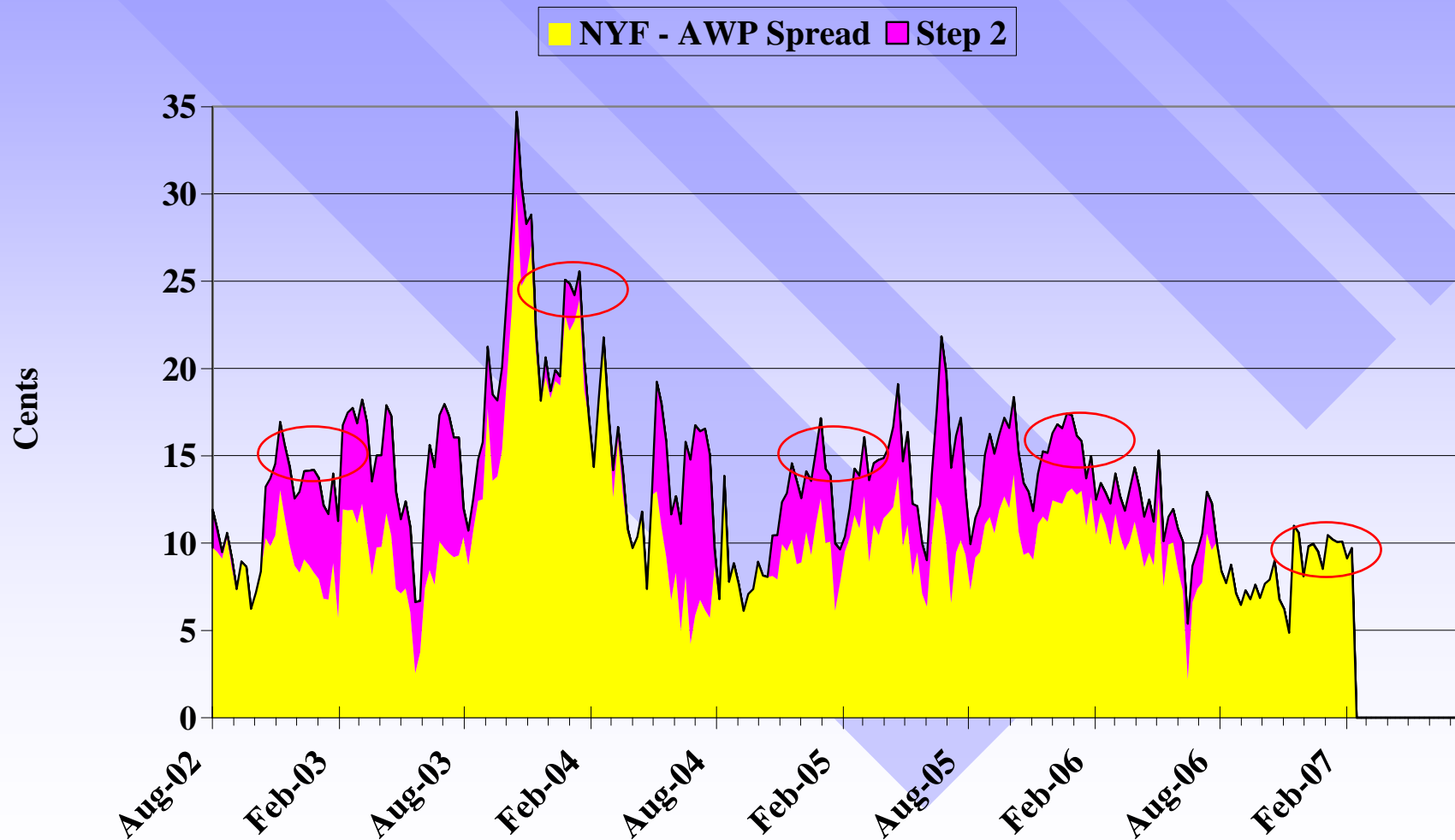
POSSIBILITY of a Step 2

- Forced exporters to offer cheaper
- Pushed cotton into foreign markets

ACTUAL large Step 2

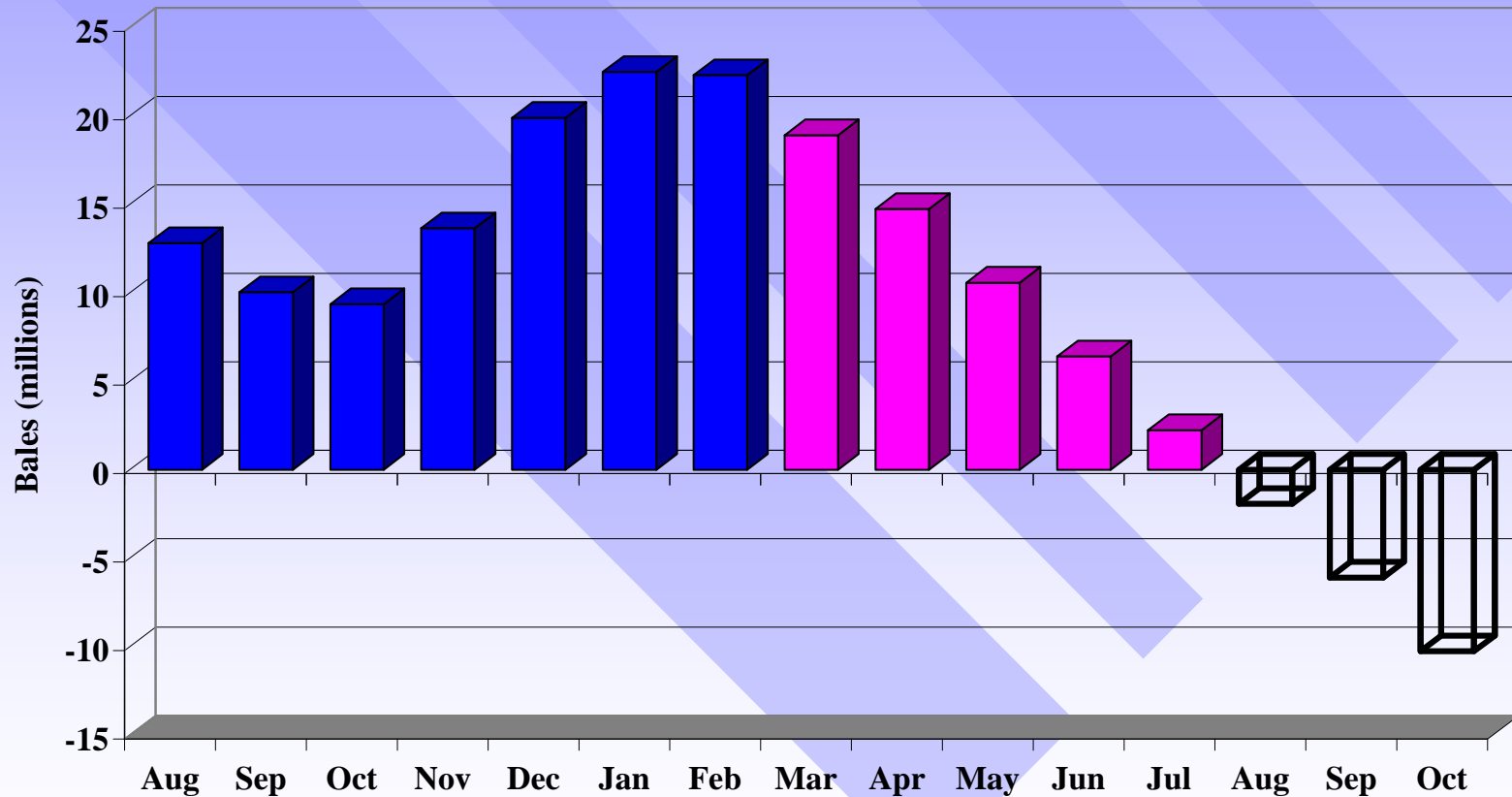
- Forced merchants to bid higher
- Pulled cotton out of loan

NY Futures – AWP Spread & Step 2 Rate



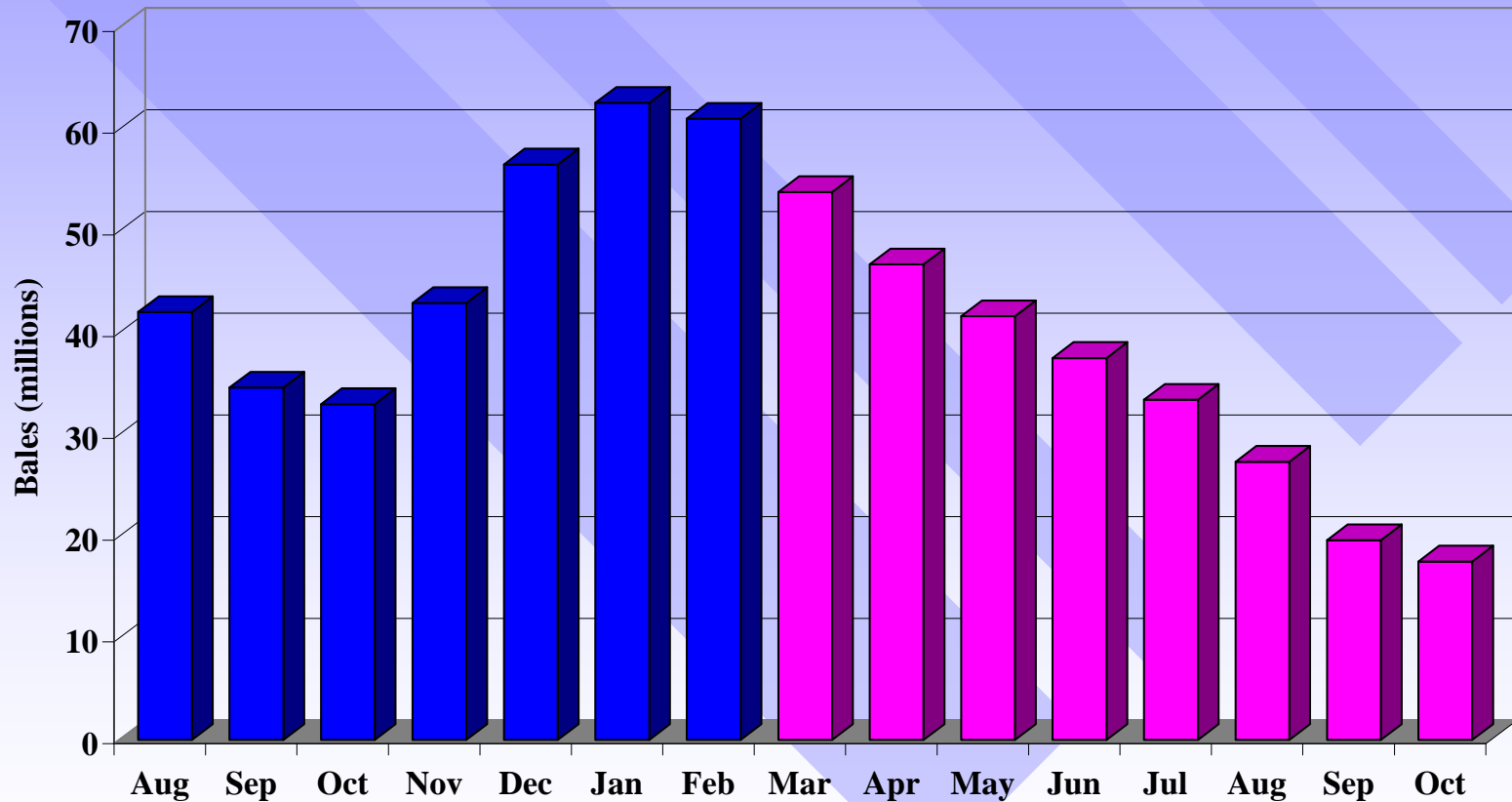
China Supply

Aug 2006 – Oct 2007



World Supply without U.S.

Aug 2006 – Oct 2007



Forfeitures Costs - Producer

	AZ	TX	AR	AL	NC
Receiving		3.10	3.35	2.75	4.00
One Month's Storage	3.60	1.95	3.25	2.00	1.70
Compression	7.25	9.25	8.00	6.00	
Additional Storage			5.90		
COST TO FORFEIT	\$10.85	\$14.30	\$20.50	\$10.75	\$5.70
Cents per pound	2.17	2.86	4.10	2.15	1.14
				-3.00	
Loan "forfeit floor"	48.28	48.74	48.25	50.40	52.16

Forfeitures Costs - CCC

	AZ	TX	AR	AL	NC
Loading	8.00	5.00	10.25	5.75	4.00
Storage	7.20	3.90	6.50	4.00	3.40
Costs Accruing to CCC	\$15.20	\$8.90	\$16.75	\$9.75	\$7.40
??? Market Loss ???	\$5.00	\$10.00	\$15.00	\$20.00	\$25.00
CCC Risk on Forfeitures	\$20.20	\$18.90	\$31.75	\$29.75	\$32.40
	\$20.00			\$30.00	

Obstacles

- U.S. surplus pushing NY futures down.
- World supplies holding AWP up.
- NYF-AWP spread narrow.
- Equity decreased.
- Loans not redeemable.
- U.S cotton priced out of market.

Outcome

- High U.S. prices.
- Foreign growers selling.
- U.S. losing market share.
- Some qualities and locations may never reach redemption level.
- Forfeitures likely.
- CCC stocks on market at harvest.